

**SOUND TRANSIT  
STAFF REPORT**

**RESOLUTION NO. R2005-02**

**Sales Tax Bonds of the Authority to be issued in a series to finance a portion of the authority's regional transit system plan.**

<b>Meeting:</b>	<b>Date:</b>	<b>Type of Action:</b>	<b>Staff Contact:</b>	<b>Phone:</b>
Finance Committee	1/6/05	Discussion/Possible Action to Recommend Board Approval	<b>Hugh Simpson</b> , Chief Financial Officer	(206) 398-5182
Finance Committee	2/03/05	Discussion/Possible Action to Recommend Board Approval	<b>Brian McCartan</b> , Deputy Chief Financial Officer	(206) 398-5182
Board	2/10/05	Action		

<b>Contract/Agreement Type:</b>	✓	<b>Requested Action:</b>	✓
Competitive Procurement		Execute New Contract/Agreement	
Sole Source		Amend Existing Contract/Agreement	
Interagency Agreement		Contingency Funds (Budget) Required	
Purchase/Sale Agreement		Budget Amendment Required	

**ACTION**

- Authorizes the issuance of the bonds, subject to a final board approved bond sale resolution to be presented to the board after the bond pricing.
- This resolution establishes the basic covenants for these and future bonds issued on the same lien with pledged sales and rental car tax.

**KEY FEATURES**

The final resolution is still under development but the key features as currently drafted are;

- Establishes the covenants for the issuance of sales tax and rental car tax bonds.
- Requires Sound Transit to impose sales tax and rental car taxes while the bonds are outstanding.
- Requires pledged taxes to be used in the following order:
  - first, to pay prior (*senior lien*) bonds;
  - second, to make all required payments for reserve accounts for the prior bonds;
  - third, to make principal and interest payments on bonds authorized under this Resolution (subordinate bonds);
  - fourth, to make all required payments for subordinate lien reserve accounts;
  - fifth, to make all payments required to be made for junior lien bonds;
  - sixth, to pay the costs of operating and maintaining Sound Transit and its facilities; and
  - seventh, for any lawful purpose of the agency.
- Pledges Sound Transit's collection of voter-approved sales and use tax and rental car taxes to repayment of bonds.
- Bonds issued under this Resolution would be subordinate to the Sound Transit 1999 Bonds and any subsequent bonds pledged under that lien.

- Prevents Sound Transit from issuing additional subordinate lien bonds unless:
  - It can generate enough Sales Tax, MVET and Rental Car tax to pay 1.x times the maximum debt service on the prior lien (senior lien) bonds;
  - It can generate enough Sales Tax and Rental Car Tax to pay 1.x times maximum debt service coverage on subordinate lien bonds.
- Allows for the agency to pledge additional taxes to subordinate lien bonds, such as MVET, if legally available and if the Board elects to do so;
- Establishes accounts including:
  - the Subordinate Lien Bond Account in which the Sound Transit deposits Pledged Taxes (Sales Tax and Rental Car Taxes and other such taxes as approved by the Board) and make payments on the bonds;
  - the Tax Stabilization Sub-account, which Sound Transit may use to save money in anticipation of a sales tax rollback.
- Authorizes the execution of interest rate and currency swap agreements to hedge risk.
- Provides for the appointment of a bondholders' trustee if the Authority defaults in payment.
- Authorizes the bonds to be defeased or refunded.
- Authorizes the issuance of junior lien bonds.
- The final terms of the sale of bonds (amounts, maturity, interest rates, redemption provisions) would be adopted by the Board by later resolution at the time of a bond sale.

**BUDGET IMPACT SUMMARY**

<b>Action Outside of Adopted Budget:</b>	<b>Y/N</b>	<b>Y Requires Comment</b>
This Line of Business	NA	
This Project	NA	
This Phase	NA	
This Task	NA	
Budget amendment required	NA	
<b>Key Financial Indicators:</b>	<b>Y/N</b>	<b>Y Requires Comment</b>
Contingency funds required	NA	
Subarea impacts	NA	
Funding required from other parties other than what is already assumed in financial plan	NA	

N = Action is assumed in current Board-adopted budget. Requires no budget action or adjustment to financial plan

**BUDGET DISCUSSION**

The Adopted 2005 Budget did not assume the issuance of bonds in 2005. If the agency were to proceed with a bond sale, interest earnings and debt service would be higher than what was

included in the Adopted 2005 Budget. **The 2005 Budget would need to be amended to reflect these changes.**

### **REVENUE, SUBAREA, AND FINANCIAL PLAN IMPACTS**

The agency's long-term financial plan forecasts the issuance of an additional \$1.0-\$1.2 billion of bonds to finance the agency's Phase 1 Board-approved capital plan. This action would establish the covenants for a new lien (Sales Tax and Rental Car Tax) for bonds to be issued as a part of the funding for Phase 1 capital projects and is consistent with the agency's current financial planning assumptions.

### **BUDGET TABLE**

NA

## M/W/DBE – SMALL BUSINESS PARTICIPATION

Sound Transit's investment banking team includes a women/minority-owned firm that will participate in the bond sale.

### **Project History**

Finance staff has brief the Finance Committee, and received guidance from the Committee, several times during the last year on the development of an agency asset-liability management (ALM) approach in managing its cash investments and bonding requirements. As discussed with the Committee, the ALM approach would potentially issue debt prior to the agency reaching its minimum cash position in order to achieve the lowest cost of borrowing for the program.

### **Prior Board or Committee Actions and Relevant Board Policies**

<b>Motion or Resolution Number</b>	<b>Summary of Action</b>	<b>Date of Action</b>
R-73	Adoption of <i>Sound Move</i> - A RESOLUTION of the Board of the Regional Transit Authority for the Pierce, King, and Snohomish Counties region adopting a Ten-Year Regional Transit System Plan, together with related Appendices, and a Regional Transit Authority Long-Range Vision, and rescinding Resolution No. 40.	5/31/96
R-82	A RESOLUTION of the Board of the Regional Transit Authority for the Pierce, King and Snohomish Counties region imposing taxes authorized pursuant to a vote of the electorate to implement the Ten-Year Regional Transit Plan; levying, fixing, and imposing a motor vehicle excise tax, a retail sales and use tax, and a sales and use tax on retail rental cars, all for the sole purpose of providing high capacity transportation services through implementation of the Ten-Year Regional Transit Plan; and authorizing the Executive Director to enter into contracts with the state for tax collection and administration. (beginning on 4/1/97)	2/13/97
R98-47	A RESOLUTION of the Board of Directors of the Central Puget Sound Regional Transit Authority authorizing Sales Tax and Motor Vehicle Excise Tax Bonds to be issued in a series to finance a portion of the Authority's regional transit system plan.	11/12/98
R98-48	A RESOLUTION of the Board of Directors of the Central Puget Sound Regional Transit Authority authorizing the issuance and sale of Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999, in the principal amount of not to exceed \$400,000,000 to pay a portion of the cost of the Authority's regional transit system plan; fixing the date, form, and terms of the bonds; and authorizing the sale of the bonds.	11/12/98

## **FUNDING**

Any bonds issued under this Resolution will be repaid from sales tax and rental car tax revenues during the term of the bonds.

## **CONSEQUENCES OF DELAY:**

If the Board does not authorize the sale of a new series of bonds at this point, the agency could not issue additional bonds at this time. The agency has sufficient cash at this point to fund the projects through 3Q 2006. However, if the agency does not issue additional bonds at this time, it risks incurring higher borrowing costs in future years.

## **LEGAL REVIEW:**

The Legal Department, the agency's Bond Counsel (Foster Pepper and Shefelman), and counsel for the underwriters (Preston Gates and Ellis) will have authored and/or reviewed all bond related documents.